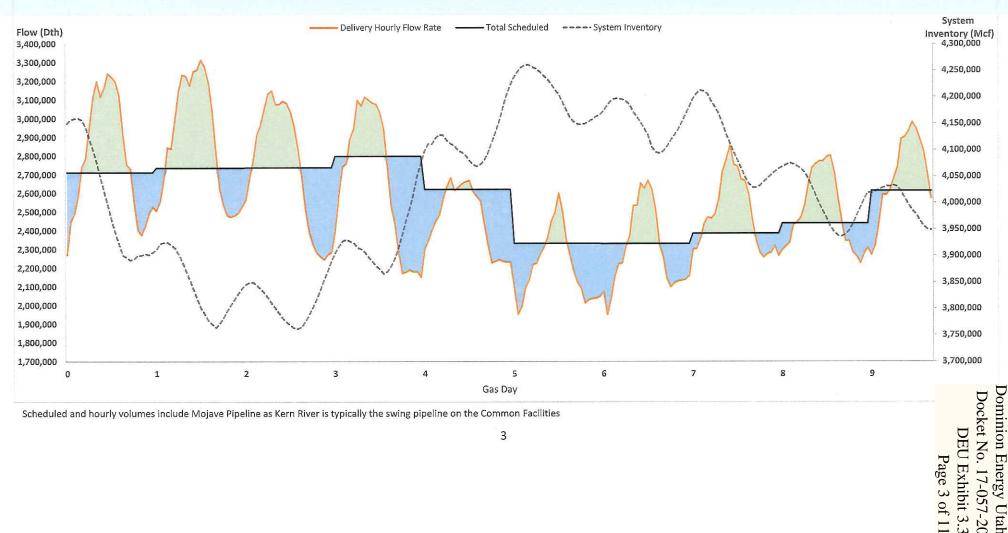


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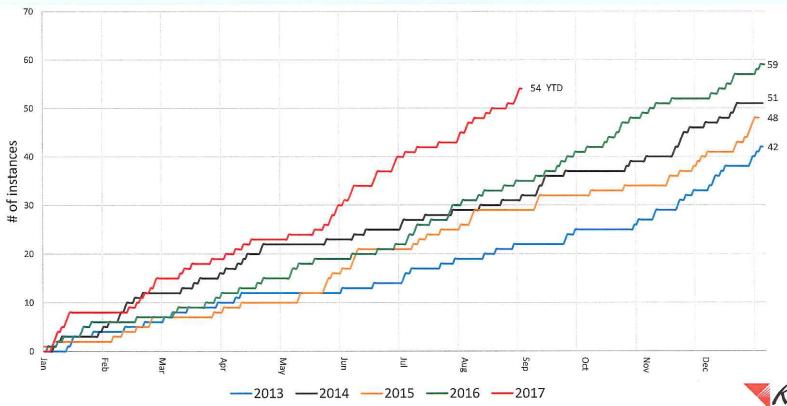
System Balancing Procedure

System Inventory/Hourly Deliveries

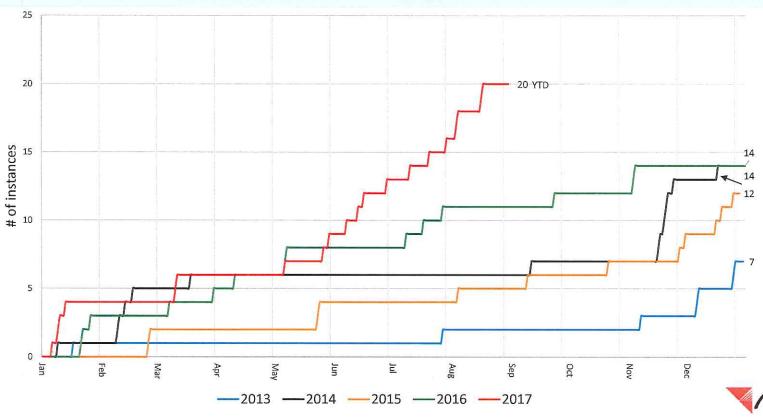


Scheduled and hourly volumes include Mojave Pipeline as Kern River is typically the swing pipeline on the Common Facilities

Number of Days with at least 100,000 Mcf System Inventory Changes



Number of 3 Consecutive Days with at least 250,000 Mcf System Inventory Changes



Dominion Energy Utah
Docket No. 17-057-20
DEU Exhibit 3.3
Page 5 of 11

Number of High and Low System Inventory Notices (through September 1, 2017)

Year	Low Inventory Notices	High Inventory Notices	Total Days with Notices
2013	13	15	28
2014	15	14	29
2015	6	24	30
2016	10	49	59
2017	9	46	55



Reliable Firm Service

- Kern River is committed to providing reliable service this will not be compromised
- Daily and hourly imbalances are impairing our ability to meet the commitment
- Tariff language and OBA terms provide means to manage conditions
 - "Transporter will not be obligated to deliver to Shipper on any Day a greater Quantity of Gas, on a Thermally Equivalent basis, than it has
 received from shipper on such Day, reduced by the Quantity required for fuel used and lost and unaccounted-for gas." Kern River tariff,
 GT&C, Section 10.2
 - "Shipper and Transporter will attempt to keep departures from scheduled receipts and deliveries to a minimum." Kern River Tariff, GT&C, Section 10.6(b)
 - "The Parties intend that the quantity of gas actually delivered and received each day at each location will equal the Scheduled Quantities for that location." Section 2, Kern River's standard OBA
 - "Transporter will have the right to take actions of whatever nature may be required (including termination or reduction of service to Shipper) to correct any imbalances which impair the operation of or threaten the integrity of its system, including maintenance of service to other Shippers." Kern River tariff, GT&C, Section 10.9
 - Kern River has the "right to take actions of whatever nature may be required (including interruption or suspension of service to the Location) to correct any Operational Imbalances that may impair the operation of, threaten the integrity of, or interfere with maintenance of service on" Kern River's system." Section 4(b), Kern River's standard OBA
 - "If, at any time, Transporter determines that the capacity of its system or any portion thereof, including capacity at Receipt Points or Delivery Points, is insufficient for any reason to serve all scheduled Quantities, then Transporter will, without liability to any Shipper, curtail or interrupt deliveries. Such curtailment or interruption will occur in a reverse order to the scheduling sequence set forth in Section 13.2, subject to NAESB WGQ 1.2.12, relating to Elapsed-Prorated-Scheduled Quantities." Kern River Tariff, GT&C, Section 13.3(a)

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DEU Exhibit 3.3
Page 7 of 11

Maintain Reliability

- Market conditions and customer behavior have changed
- Kern River will continue to provide a reasonable amount of flexibility but will not allow system integrity to be impacted
- Kern River requires all shippers to schedule quantities equal to gas actually received and delivered each day
- Kern River requires all shippers and delivery point operators to coordinate with Kern River and receive approval from Kern River for all daily balancing arrangements
- Kern River will be proactive to protect the integrity of the system
- When conditions exist that cause Kern River to be concerned with the integrity of its system, Kern River will post notices that:
 - Describe the actions that must be taken by shippers and delivery point operators
 - Describe corrective actions that will be taken by Kern River, if necessary, including control of physical flows at delivery points and curtailment of previously scheduled quantities at delivery points

Notices for Corrective Actions by Customers

- Line Pack is Trending Low
 - Request delivery point operators and shippers to limit physical deliveries to scheduled quantity
- Line Pack is Trending High
 - Request delivery point operators to reduce confirmations to match physical deliveries
- Potential Adverse Operating Conditions
 - Request delivery point operators and shippers to limit physical deliveries to scheduled quantity
 - Request delivery point operators to reduce confirmations to match physical deliveries



Notices for Kern River Corrective Actions – Stage Two

- Line Pack is Low
 - Limit physical deliveries to that day's scheduled quantity; or,
 - Limit physical deliveries to increase line pack by correcting negative imbalances created over prior day(s)
- Line Pack is High
 - Curtail nominations to decrease line pack by correcting positive imbalances created over prior day(s)
- Potential Adverse Operating Conditions or Non-performance by Shipper and/or Receipt or Delivery Point Operators
 - Limit physical deliveries to that day's scheduled quantity; or,
 - Limit physical deliveries to increase line pack by correcting negative imbalances from prior day(s)
 - Curtail nominations to decrease line pack by correcting positive imbalances created over prior day(s)
- Stage Two action Kern River will not allow a tolerance



Corrective Action Procedure

- Kern River will limit physical flows during the current gas day if corrective action is deemed necessary during low line pack or
 potential adverse operating conditions events or non-performance by shippers and/or delivery point operators
- Kern River will determine if prior day imbalances will be included in the corrective action based on system conditions
 - The date on which trending low or high line pack or potential adverse operating condition notices are posted will establish the earliest start date for tracking prior day imbalances
- Kern River will determine the prior day imbalances at each delivery point and will aggregate the imbalances by delivery point operator's swing OBA or swing TSA
 - Kern River will adjust prior day imbalances by:
 - Stage 1 action a quantity equal to the greater of 1,000 Dth or 2% of the prior day(s) scheduled quantity
 - Stage 2 action no adjustment
- Low line pack limit physical flow pro rata at the delivery points where gas is physically delivered by a quantity equal to the total aggregated prior day imbalance
 - Kern River will send a delivery point operator-specific email and will directly contact facility operator 2 hours before flow is limited
- High line pack during the applicable Kern River sub-cycle 2 process, Kern River will reduce the operational capacity pro rata at
 the delivery points where gas is nominated/scheduled by a quantity equal to the total aggregated prior day imbalance
 - Shippers and delivery point operators will see the impact to nominated/scheduled quantities on their scheduled quantity reports